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C O N F I D E N T I A L SECTION 01 OF 04 BAKU 000963

SIPDIS

FOR U.S. DEPARTMENT OF COMMERCE - DAS PAUL DYCK

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TAGS: [ECON](#) [ETRD](#) [EINV](#) [EFIN](#) [EAGR](#) [ECIN](#) [BBSR](#) [BEXP](#) [BMGT](#)

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SUBJECT: DEPARTMENT OF COMMERCE DAS DYCK VISITS U.S.  
COMPANIES IN AZERBAIJAN AND ANNOUNCES RE-OPENING OF FCS  
OFFICE

REF: A. A. BAKU 863

[B. B. BAKU 649](#)

[C. C. 593](#)

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Classified By: Ambassador Anne E. Derse for reasons 1.4 (b,d).

[1](#)1. (U) SUMMARY: In his September 25-28 visit to Azerbaijan, Department of Commerce DAS Paul Dyck met with GOAJ officials and representatives of several U.S.-based companies, and toured business facilities in Azerbaijan. Business leaders complained of corruption and inefficiencies, despite gains Azerbaijan made in the World Bank's "Doing Business 2009" report. GOAJ officials highlighted rapid economic growth and reforms, and pointed to key non-energy sectors of growth, including telecommunications and environmental remediation. To highlight the USG's commitment to strengthening commercial relations with Azerbaijan and reflect the growing economic relationship between the U.S. and Azerbaijan, he officially announced the re-opening of the Foreign Commercial Service office in Baku at a luncheon with the American Chamber of Commerce. The move was widely praised by business representatives and GOAJ officials alike.

See Action Request in para 14. End Summary.

[1](#)2. (U) Department of Commerce DAS Paul Dyck began his September 25-28 visit to Azerbaijan by having separate roundtable discussions with U.S.-based IT and telecoms companies, International Financial Institutions (IFIs), and U.S. based non-energy companies to discuss the overall business environment in Azerbaijan. He also met privately with representatives of U.S. based companies, including Gagaj Corporation, a consumer products manufacturing firm, and Cisco, an internet network services firm, to discuss on-going issues with the GOAJ which have impeded their progress. DAS Dyck met with GOAJ officials from the Ministries of Industry and Energy, Communications and Information Technology, Finance, and Economic Development as well as the State Oil Company of the Azerbaijan Republic (SOCAR).

Private Industry Meetings

[1](#)3. (U) During a frank discussion of the effect of recent reform initiatives and rankings, such as those highlighted in the recent World Bank "Doing Business 2009" report (Ref A),

at luncheon meeting with representatives from IFIs, DAS Dyck noted the increased value of commercial relations and stated that much had changed since his last visit in 2007. Participants included World Bank Country Manager Gregory Jedrzejczak, IMF Resident Representative Kobe Gvetenadze, EBRD Head of Office Francis Delaey, and IFC's Country Officer Aliya Azimova.

14. (C) Jedrzejczak opined that while diversification from oil and gas was desirable, it would not make a big difference in the structure of Azerbaijan's overall GDP. He also noted that the current international market turmoil provided a good opportunity for Azerbaijan to acquire diversifying assets on the cheap, but that more maturity was needed in planning how to spend the money and planning the economy for the future. Gvetenadze recommended the best way for the GOAJ to continue its progress on economic reforms would be to close its Customs Service, reflecting the "Trading Across Borders" criterion of the "Doing Business" Report in which Azerbaijan scored 174 out of 181 economies, in marked contrast to its great progress in other areas. Other topics of discussion included the hope that the "Doing Business" report would spur on other sectors, such as the Customs Service, to begin to implement reforms and concern that Azerbaijan could "miss its chance" to become a developed vice developing country if it did not act quickly to implement policies to create an investment climate which is "predictable" with regulations which are "enforceable" and support a "level playing field." The group noted with surprise that the Customs Committee, in the embarrassing wake of the Doing Business report, has already issued a statement that it, too, will implement a "one window" concept for customs clearance (USAID is following up).

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IFC and World Bank reps reported that Azerbaijan had taken a focused and "intelligent" approach to improving its Doing Business rating, seeking their advice on what lay behind the methodology of the ranking and pinpointing the reforms that needed to be made to improve it. The result was spectacularly successful. They added that some GOAJ officials had already approached them with questions about how to take the same approach with the Transparency International rating.

15. (C) In a roundtable with business leaders, DAS Dyck was told that "monopolistic groups" have divided the economy amongst themselves and colluded with government actors to make things difficult for new entrants to the market. As an example, the local American International Group (AIG) manager, Viladi Maniyev explained that each of these groups has its own insurance company and therefore AIG is only able to profitably engage in the reinsurance market. An American lawyer with ten years' experience in Azerbaijan said that when one of his clients complained that he was being asked for a \$20,000 bribe during an audit of his company, even though his company had complied with all tax laws, the auditor said "We know you've paid all your taxes - that's why we're only asking you for \$20,000!" Others spoke of the frequency with which the GOAJ still awards contracts without an open tender process, such as a recent passport production contract that was awarded to a French firm without any tender announcement cited by 3M.

16. (C) When asked their thoughts on WTO accession for Azerbaijan, all the business leaders agreed it would be important. Oguz Aldemir, director of the local Coca-Cola bottler, said that "transparency would come" if Azerbaijan had to abide by WTO regulations, but added that the growth of the Azerbaijani market was still too good to resist: "the consumer market here has doubled in three years' time . . . you don't get growth like this anywhere (else) in the world."

STATE PROPERTY COMMITTEE

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17. (C) In a meeting with the State Property Committee (SPC), DAS Dyck brought up the land dispute the Committee has with Gagaj Corporation. Gagaj purchased a factory through a state privatization program in 1998 but was not given the underlying land. Recently, Gagaj has been warned that unless it purchases the land, which it has been trying to acquire the rights to since 2003, the land could be sold to another party, thus putting Gagaj in a perilous legal situation. Gagaj says they were told that the SPC would refuse to sell this land at the official, nominal price unless they were paid a large bribe. In response to his inquiry, SPC representatives informed DAS Dyck that the Committee had submitted new zoning rules to the Cabinet of Ministers, and that once those new rules were approved, "Gagaj would not face any problem."

SOCAR

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18. (U) In a meeting with State Oil Company of the Azerbaijan Republic (SOCAR) Vice President for Environmental Issues Muhkhtar Babayev, DAS Dyck discussed the company's efforts to reduce its environmental impact and to rehabilitate contaminated production sites. Babayev noted that 30,000 hectares of land need to be rehabilitated and that vast amounts of outdated infrastructure need to be upgraded to meet international standards. He explained that his division, created in response to a government mandate in December 2007, has received World Bank assistance to develop a plan to clean up its land-based and offshore operations. Babayev noted that key challenges remain, including a culture of environmental negligence, as well as a lack of training programs, expertise and the equipment necessary to achieve the goals of the World Bank plan. In response, DAS Dyck informed Babayev that the new FCS office planned for Baku would be able to facilitate links between SOCAR and U.S. firms which have the necessary expertise. Until that office is opened, he suggested that Babayev coordinate with the FCS office in Kazakhstan.

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Ministry of Industry and Energy

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19. (SBU) During his meeting with DAS Dyck, Deputy Minister of Industry and Energy Gulmammad Javadov, expressed the GOAJ's gratitude for USG assistance in constructing the BTC pipeline, aiding Azerbaijan's efforts to become economically independent from Russia. Javadov noted the desire for closer cooperation with the USG and with U.S. companies, specifically in the fields of renewable energy sources, soil cleanup, light industry, machinery making, chemical production, and environmental remediation. He said that U.S. companies have an excellent reputation for quality in Azerbaijan, but that other countries, namely South Korea and Belarus, are more effective salespersons. DAS Dyck informed him that FCS office, planned to re-open in Baku within 6 months, would provide the opportunity for a more effective commercial relationship. In the interim, the Embassy Economic section promised Javadov that it would further research opportunities for economic partnership.

Ministry of Communications and IT

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10. (U) Minister of Communications and IT Ali Abbasov opened his meeting with the DAS by expressing his pleasure with the proposed re-opening of an FCS office in Baku and inquired about its future role and involvement with the American Chamber of Commerce. He went on to explain the expanding role of the IT sector in the Azerbaijan economy, noting that some recent estimates show the sector growing by 35 percent. Abbasov acknowledged room for growth in the privatization of the telecoms sector, which is still 90 percent state-owned. He emphasized President Ilham Aliyev's concern for the Azerbaijan economy after 2012, when oil and gas production is

slated to decline, and said that Aliyev was focusing on the Communications and IT sectors for economic diversification.

¶11. (SBU) Abbasov enthused about Azerbaijan-initiated plans to create an information super highway extending from the west coast of the Black Sea to China, which would include a fiber optic connection between Azerbaijan and Turkmenistan. Plans for the super highway infrastructure are slated to be discussed by stakeholder countries at the November 11-14 BakuTel Conference. Abbasov also informed DAS Dyck that the GOAJ plans to include a contract signing ceremony for the Orbital Sciences satellite project in the first day of the conference.

Ministry of Finance  
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¶12. (U) In his meeting with Minister of Finance Samir Sharifov, DAS Dyck commended the Minister on Azerbaijan's impressive rankings in the recent World Bank "Doing Business 2009" report, cautioning that further reforms were still needed. Sharifov agreed and revealed GOAJ plans to extend streamlining reforms, such as the one-stop shop implemented for registering a new business, to customs, the tax administration and the property registration processes.

¶13. (C) In discussing the specific issues related to U.S. companies Bechtel, General Electric (GE) and Cargill, Sharifov was candid about the GOAJ position, if not completely clear on all of the issues. Sharifov seemed confused about the funding issues for the Bechtel project (Ref B), and Commerce agreed to pull together data to clarify the financing information. With respect to GE, Sharifov renewed his long-standing request that EXIM consider retroactive financing for GE turbines it purchased with a commercial loan. (After purchasing GE turbines with "bridge" financing, the GOAJ find themselves 350-400 million USD in the hole to complete the project, and over a year ago asked if EXIM bank would consider retroactive financing for the GE turbines. (NOTE: Embassy will again explore this option with EXIM Director Kian when he next visits Baku October 13-17. End note.) Regarding Cargill (Ref C), Sharifov explained that he was not convinced that the GOAJ was legally liable, as the dispute originated between partners of Cargill and a

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"limited liability" corporation, in which GOAJ was merely an investor, and therefore had limited liability. He confirmed, however, that if it is shown that Azerbaijan in fact has a legal obligation to Cargill, "we will honor it."

¶14. (C) COMMENT/ACTION: U.S. Department of Commerce (USDOC) states that Cargill has not yet filed an advocacy case with them. We had earlier been told by Washington that the necessary papers had been filed. Embassy requests that USDOC follow up with Cargill asap to address the issue of liability and that State (EEB/CBA) and USDOC determine what further USG advocacy is appropriate, and advise. Cargill has expressed concern with lack of USG advocacy. If Cargill has a legitimate case for further USG action, we want to follow up expeditiously. End comment.

Ministry of Economic Development  
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¶15. (U) DAS Dyck's meeting with Minister of Economic Development Heydar Babayev was cordial and constructive with Babayev echoing many of the sentiments of Minister Sharifov, especially concerning the World Bank "Doing Business" report, the re-opening of the FCS office in Baku, and issues related to Cargill and Bechtel. With regard to Cargill, Babayev added that GOAJ has the reserves to pay, but would not do so unless it is shown that the GOAJ in fact has a legal liability to Cargill. He also commented that while President Aliyev was still very interested in the Bechtel project, he felt the U.S. side was "not very active," and

urged that Bechtel renew its efforts.

¶16. (C) COMMENT: DAS Dyck's meetings with U.S. company representatives and GOAJ officials were direct and informative. There are obvious areas for improvement and increased cooperation, but the dialogue remains open and honest. Continued GOAJ focus on further reforms in the wake of its "Doing Business" ranking will enable expanded economic relations. USDOC's decision to re-open the FCS office in Baku was very positively received by GOAJ and business representatives alike as an important signal of USG support and commitment to build commercial relations, especially in the wake of recent regional tensions. End Comment.

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